OTSI KETA QUARTERLY

Twenty-Sixth Edition - October 2016

OTSI KETA CAPITAL

Q3 2016

Otsi Keta Quarterly is designed to share insight on both current performance and future potential.

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QUESTIONS...

Contact us at:

312.473.3982
888.563.7349

F. William Schwarz, III
bill@otsiketacapital.com

Frederick P. Rollins, Jr.
fred@otsiketacapital.com

Re: Otsi Keta Capital Focus Fund LP lowering fees for investors

Dear Interested Investors in OKFF:

Beginning in January of 2017, Otis Keta Capital is lowering fees charged to investors. Reducing our fees better positions the fund to achieve our outperformance goals and increase our attractiveness to new investors. As the financial markets remain dynamic, we try to follow the changes while keeping true to our original business plan. One of the tenets to opening our Fund over six years ago was consistent outperformance of the Russell 2000 index after all fees and expenses were calculated. The good news is we have been able to obtain this outperformance for our investors. With our new fee structure we can do even better.

As our current investors know, we have produced excellent long-term returns against both the index and other investment managers. As our assets have continued to grow, we are able to share some of the benefits of our larger asset base with our limited partners.

What is crystal clear to us today is that it is time to cut our bonus structure by 50 percent to all partners and incoming clients. This decision lines up better with our original mission and passes along the type of performance that should come along with our strategy. Had we been operating under the new structure, the fund would have produced a return to investors of 100.43 percent from inception through September 30, 2016, versus 86.20 percent for the Russell 2000.

We welcome you to contact us for a discussion on how you can take advantage of this change as we approach the calendar year end, a typical time for personal rebalancing. There are a few documents to review and sign, and a wire or check needs to be processed. It is a simple, straightforward transaction. Regardless of your decision or timeline, we look forward to reporting on the Midwest and investing going forward.

All the best,

F. William Schwarz, III
Partner

Frederick P. Rollins, Jr.
Partner

WHY WE DO WHAT WE DO

Successful investors typically have two traits that set them apart:

1. A deep understanding of their investment strategy
2. A level of commitment that allows them to ride out the inevitable periods of underperformance

In short, commitment matters. Building commitment requires asking tough questions and working hard to answer them. Too many investors swap the hard questions for easy questions. Questions like, "what is this company worth?" turn into single dimensional discussions about a new product or customer. Something important gets lost when the hard questions are avoided—the assessment of internal and external factors that could significantly change a company's future value.

Lacking a deep understanding of a business' fundamentals and key risks causes both retail and institutional investors to overreact to price changes in the market and under react to fundamental changes in the companies they invest in.

Joel Greenblatt, the founder of Gotham Capital, as well as Jonathon Clements, of the *Wall Street Journal*, have written and spoken about how hard it is to find a strategy you believe in and how investors are horrible at riding out the market's bumps. Both Greenblatt and Clements point to research done by Morningstar on the best-performing mutual funds of the last decade (2000-2009).

> The top-performing fund earned an average return of 18 percent per year, during a period when the broader market lost close to 1 percent per year over the 10-year period. Yet, the average investor in this top-performing fund managed to lose 11 percent per year on a dollar-weighted basis over those same 10 years.
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> How? After every period in which the fund did well, investors piled in. After every period in which the fund did poorly, investors ran for the exit. So, the average investor managed to lose money in the best-performing fund simply by selling the fund at the wrong times. Most professional allocators follow the same pattern as individuals. They pull money out after the market or manager does poorly. They put money in after the market is already up or the manager has outperformed.[1]

At Otsi Keta, we know commitment is critical for successful investing. We work to combat pervasive group consensus by conducting our own independent research. We focus on finding undervalued businesses that we can truly understand. We stay away from investments that hinge on a single event or technology. Instead, we focus on companies where executional capabilities can be assessed. This results in us avoiding biotech, software, or turnaround companies. We like cash-generative businesses, with little-to-no net debt and management teams that hold a significant stake in the companies they manage.

Every investment is initiated with a clear opinion on what we believe it is worth and a specific investment thesis. We acquire positions when they are at least 25 percent below our estimate of fair value—applying Benjamin Graham's well-known "margin of safety" in our investment process.

Diversification, while a great investment technique, is a poor substitute for knowledge. We stay focused on our best ideas—never holding more than 20 individual positions at any point in time. And, we never allow any single position to exceed 9 percent of investable assets.

Today's investment funds are often built for asset gathering and not returns. We believe, and history is on our side, that small companies represent the best long-term opportunities for compounding capital. Having too many positions or too large of a pool of capital dilutes the returns a manager can earn for their investors.

If you want to have a deep understanding of your investment strategy and be able to ride out the inevitable bumps in the market, then the Otsi Keta Focus Fund, LP may provide the right combination of attributes to help compound your capital over time.

[1] *Gotham Funds, Morningstar "Best stock Fund of the Decade"*

FINGER IN THE AIR

No, not "that finger." This story is not about driving in a major city and turning against the lights, or on a typical commute between a downtown and the suburbs. This is the wetting of the finger and seeing which way the wind is blowing. Or, from time to time, seeing if there is any wind.

Our self-assessment is looking at our original documents, reviewing old statements, and reading past investment letters. What was our mindset in 2010 or 2011, and how has that translated to business and/or performance? We can tell you that we have been able to annualize over 10 percent for our smallest clients since inception, and even higher returns for the larger partners that have over $1 million to invest in the same time frame. Those numbers are impressive to us as managers, but we do not feel they translate as well as they could to our partners or our prospective partners.

We have always felt that if we built a consistent, well-invested Fund with a story that is unlike others, we would be able to attract $50 to $100 million in five to seven years. That scenario has not played out to date on the asset gathering. We have been "as advertised" to our dedicated partners, but have not been attractive enough to our "fence-riding" would-be partners.

At Otsi Keta Capital we recognize that investing in companies that are investable to everyone is not a "sexy" storyline. We know that human nature instills in all of us a desire to have what is unattainable. Having a seat at the investing table to a private company like Uber always will have more appeal than owning a stake in a seldom-mentioned public company. Unfortunately, most of that private company investing comes with the ability to lose 100 percent of your money (see, a high percentage of private equity startups). Private equity investing always looks foolproof after the business has taken off, too.

This drives us back to our documents and our original game plan. Would we all agree that we would invest $250,000 in a plan that would grow to $442,000 in six years? That is what an annualized 10 percent gets you at Otsi Keta Capital in six years.

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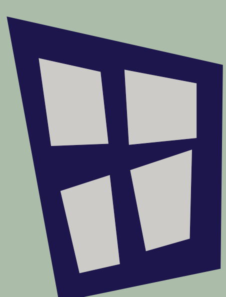

The Window Indicator

October brought an interesting sight by the window this year. We would argue a sight that is rather unique in this day and age. The USS Detroit was seen on its maiden voyage as it passed a sun-drenched St. Clair, Michigan on a cool, fall morning. What make this town so unique were the conversations being heard between the crew on the deck and the crowds on the shore. The morning was so still that you could hear people calling out to individuals on the vessel and the responses. Neat stuff!

The navy vessel, built in Marinette, Wisconsin was travelling toward its namesake for an extended stay before departing the Great Lakes for its global duties. This new-age destroyer showed the engineering marvels that still reside in the Midwestern United States. Our only hope for future orders is the Navy continues to request vessels that fit through the Welland Canal and the St. Lawrence Seaway. A proud day nonetheless.

On to some musings about the commercial traffic to-date for the Great Lakes. Port traffic continues to see small up ticks as we approach the final quarter of the shipping season. Green Bay and Milwaukee, Wisconsin continued to see better that last year numbers on several commodities including grain and aluminum. These numbers bode well for increased demand globally from products that move through the Great Lakes. The port of Toledo has seen a slight increase in coal shipments this year as well; quite a statement after the all of the political pressure to eliminate coal from our global footprint.

Dredging of the Great Lakes shipping channels continues to be a headline in spite of the Great Lakes rising 10 centimeters this year after a "dry" summer. The ArcelorMittal steel plant on the Cuyahoga River in Cleveland could be in dire straits if relief does not come from the Corps of Engineers. Silting in tributaries like this remains a constant concern to keep commercial business viable. This falls under the same file as discussions in previous letters around the condition of our locking systems. This project is "shovel ready" and in need of a shovel!

We look forward to our final report from the window in January. The shipping season has been good, not great, this season, but it seems like that is what we settle for more and more. We will wrap up this good season in a couple months. Happy Thanksgiving and Merry Christmas!

OUR PERFORMANCE

For the third quarter ended September 30, 2016, the Otsi Keta Focus Fund was up 3.81%. Year to date the Fund is up 8.89%. Since inception, the Fund has returned 86.66%. All of the Otsi Keta Focus Fund numbers mentioned are net of all fees and expenses. Please see the table below to review the performance of Otsi Keta Focus Fund Limited Partnership versus competitive indexes.

Fund Name	ROR 3rd Quarter 2016	ROR YTD Sept. 30, 2016	ROR From Inception (May 7, 2010)
Otsi Keta Focus Fund Limited Partnership*	**3.81%**	**8.89%**	**86.66%**
Russell 2000 Index (^RUT)	8.66%	10.19%	86.20%
Russell 2000 Value (^RUJ)	8.29%	13.59%	65.43%

Sources: Morningstar, Otsi Keta Capital, Yahoo Finance, and Russell Investment
*Note: All OKFF performance data is shown net of all fees and expenses and is based on an investment with the maximum charge of 1.5%/20%.

The third quarter saw the market catching up to our portfolio as certain sectors rallied during a very light-volume summer. Political headlines continue to drive the daily news cycle as professionals try to predict the holdings and markets to invest in based on certain outcomes. We feel the portfolio is properly invested for the long haul, and will withstand any outcome in November.

The portfolio ended the quarter with 17 high-quality holdings. We continue to look for good entry points to add one or two holdings to the portfolio, keeping in mind we cap our portfolio at 20 holdings. The Fund continues to stay out of energy and utilities, along with holding to our internal rules around debt and pension exposure.

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If you think you already have this investment strategy with your "guy," ask them what your annualized return has been over the last six and one-half years. If they cannot answer that question, your finger might be getting dry on one side. If they have an answer that looks like our performance or something acceptable to you, then you have found someone who is probably worth your trust. That will be telling as well.

We are actively looking for partners to add to the fold. We can have a total of 99, and we are currently 50 percent subscribed. We have the ability to add some tax-deferred accounts (read IRAs). We are more sensitive with adding those accounts, because they cannot make up more than 25 percent or our total AUM. We don't make the rules, but we have to play by them.

We have come a long way in six-plus years. We have been able to revisit original investments and make money a second time. We have history on what makes up a good investment and management team, so we can discern them on a quicker basis. We have seats at the table and would welcome more guests (read partners). In the meantime, we will keep our finger in the air to see which way the wind is blowing. So far, the wind has been at our backs!

F. William Schwarz, III
Partner
direct: 810.247.3133
bill@otsiketacapital.com

Otsi Keta Capital, LLC
110 South Third Street
Suite 206
Saint Clair, MI 48079

888.563.7349
312.473.3982

Frederick P. Rollins, Jr.
Partner
direct: 810.357.8566
fred@otsiketacapital.com

OTSI KETA CAPITAL